



## **Office of the City Auditor**

# **NEIGHBORHOOD ENHANCEMENT PARTNERSHIP Report No. 0516**

November 30, 2005

Oversight and control of the Neighborhood Enhancement Partnership Program needs to be improved to more adequately control expenditures and ensure that projects meet the Program's intent. In addition, the budget mechanism currently used to authorize program expenditures is not appropriate. Instead of being authorized under the capital improvement plan, the expenditures should fall under the City's operating budget.

### **CITY COUNCIL**

Mayor  
Mary Manross

Council  
Betty Drake  
Wayne Ecton  
W.J. "Jim" Lane  
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November 30, 2005

To the Most Honorable Mary Manross, Mayor  
and Members of the Scottsdale City Council

Transmitted herewith is a report on the Neighborhood Enhancement Partnership, Report No. 0516. Citizen and Neighborhood Resources staff were receptive and cooperative throughout the audit process and we would like to thank them.

During our work we noted an issue, which did not fall within the scope of this audit but which merits reporting. We conducted research to try to establish the location and reporting responsibilities of the "neighborhood enhancement coordinator" referenced in the ordinance that establishes the Neighborhood Enhancement Commission. Through this research, we noted that the Community and Neighborhood Resources Department has not been established by ordinance as required in City Charter. City Charter requires that Council establish new departments by ordinance. To correct this situation, steps need to be taken to obtain Council approval of an ordinance that establishes the Citizen and Neighborhood Resources Department.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

A handwritten signature in dark ink, reading "Cheryl Lee Barcala".

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP  
City Auditor

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## EXECUTIVE SUMMARY

An audit of the Neighborhood Enhancement Partnership (NEP) was included on the 2005 Audit Plan. The purpose of the work was to review the controls over the expenditure of funds budgeted for this program; assess the adequacy of management controls; determine if the role played by the Neighborhood Enhancement Commission (Commission) is supported by language in the enabling legislation; and evaluate the use of the Capital Project Fund for budget authorization and tracking of expenditures.

To complete this audit, we obtained Council action reports dating back to 1991<sup>1</sup> in an effort to identify program effectiveness criteria. We found references to the implementation of a Neighborhood Enhancement Program but no evidence that parameters were ever finalized and presented to Council for approval. Without documentation of the purpose, goals, expectations, and work area ultimately responsible for the success of the Program, there is little guidance that can be used for an evaluation. Our work was made more difficult by the fact that the Program description outlined in the adopted budget differs from the purpose incorporated into the NEP application form.

In the absence of Council directed parameters, a broad interpretation of the term *neighborhood enhancement* has been adopted when spending funds approved for NEP. In addition to neighborhood based improvement projects, program monies have been used to support litter collection efforts (Treasures and Trash), neighborhood block parties (G.A.I.N.), and an environmental event for school children at EnviroKids Fest.

In the later part of FY 03/04, staff elected to expand the scope of NEP to include activities typically falling under the umbrella of social services (i.e., Rock the House). In FY 04/05, NEP funds helped sponsor an event promoted by a volunteer home rehabilitation organization (Rebuilding Together), which completed improvement projects for three elderly, low-income Scottsdale homeowners. Providing social service related activities with NEP funds lowers available funding for other projects and shifts costs that should be reported under the umbrella of housing rehabilitation. Additionally, the practice creates duplication of effort (multiple staff screening applicants) and corrupts waiting lists by providing financial assistance outside what would normally be available through federally funded programs.

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<sup>1</sup> In 1991, a Neighborhood Preservation Task Force recommended the implementation of a neighborhood enhancement program to ensure the continued health and vitality of Scottsdale neighborhoods.

We also found that the internal control environment was not adequately structured to ensure that funds were spent as approved. Obvious unrelated expenditures were charged to the NEP cost center without being detected and, in some cases, more funds were spent than authorized. In FY 04/05 the absence of appropriate management controls created a situation in which expenditures exceeded the available budget. More significantly, program related expenditures were shifted to another cost center (Neighborhood Revitalization) when funding ran out instead of seeking Council approval for a budget increase. We concluded that such action violates state law and City Charter.

We found that Citizen and Neighborhood Resources (CNR) staff inappropriately relies on the Commission to authorize programs and to make administrative decisions. Under City Code, the Commission serves in an advisory capacity. As a result, we would expect that NEP and any other sub-programs, such as Rock the House, would be proposed by staff to the Commission and then, if approved, forwarded to City Council for consideration. We did not find this. Instead, staff has allowed the Commission to establish program guidelines and takes new projects to the Commission for review but not to Council for approval. This appears contrary to the authority provided to the Commission.

Finally, we reviewed governmental accounting principles relative to the use of the Capital Project Fund for budget adoption and reporting of expenditures. NEP does not fall within the definition set by the Governmental Accounting Standards Board. According to the Statement of Principle, the Capital Project Fund is to be used to account for financial resources used for the acquisition or construction of major capital facilities. An ongoing program such as NEP does not meet this definition. In addition, NEP does not meet the guidelines established by the City for use of the Capital Project Fund (the expenditure does not result in the capitalization of a fixed asset or the revitalization of a fixed asset). Use of this Fund understates the cost of CNR operations and allows NEP to fall outside requirements for use of a modified zero based approach when determining amounts to include in budget requests. The process also allows NEP to continue without the customary performance measures, goals, and objectives that would be required if the Program was set out as a sub-program under the CNR department.

The Action Plan on the following pages detail our recommendations, management's responses to those recommendations, and the implementation status of management actions. Management's entire response can be found in Appendix A.

## ACTION PLAN

| No. | Recommendations and Management Response                                                                                                                                                                                                                                                                                                                                                          |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     | The Citizen and Neighborhood Resources General Manager should ensure steps are taken to:                                                                                                                                                                                                                                                                                                         |
| 1   | Assess proposed projects in light of the NEP program's intended purpose.                                                                                                                                                                                                                                                                                                                         |
|     | <p><b>Management Response:</b> Concur. Proposed projects will be reviewed prior to submittal of an application to ensure they are in accordance with the program's intended purpose.</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> Complete/ongoing</p>                                                                                               |
| 2   | Comply with established guidelines set out for the request and approval of NEP project funding.                                                                                                                                                                                                                                                                                                  |
|     | <p><b>Management Response:</b> Concur. All eligible funding requests will meet the established guidelines.</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> Complete/ongoing</p>                                                                                                                                                                         |
| 3   | Ensure the accuracy of information on check requisitions when signing them.                                                                                                                                                                                                                                                                                                                      |
|     | <p><b>Management Response:</b> Concur. All check requisitions will require signatures by both the General Manager and the program administrator as a second review to ensure accuracy of information.</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> Complete/ongoing</p>                                                                              |
| 4   | Establish measurable and meaningful performance goals for use in periodic assessment of NEP program operations. Develop written procedures that set out how and how often this information is to be gathered and reported and to whom the reports are to be presented.                                                                                                                           |
|     | <p><b>Management Response:</b> Concur. Relevant performance measures will be established to determine if the purpose of the NEP program is being achieved. In addition, a report evaluating the program performance will be produced annually and made available to all interested parties.</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> 6/30/06</p> |
| 5   | Either modify requirements for the timely completion of projects or adhere to the existing requirements with the use of a tickler system designed to trigger follow-up inquiries as to project status prior to the expiration of the six-month project completion window.                                                                                                                        |
|     | <p><b>Management Response:</b> Concur. A system will be established to notify staff that the 6-month project completion deadline is approaching.</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> 1/31/06</p>                                                                                                                                            |

| No. | Recommendations and Management Response                                                                                                                                                                                                                                                                        |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6   | Develop an equitable form of advertising the Rock the House program if it is to continue.                                                                                                                                                                                                                      |
|     | <p><b>Management Response:</b> Concur. Staff will enlist the assistance of the department's Public Information Coordinator to develop an appropriate advertising campaign.</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> 1/31/06</p>                                |
| 7   | Regularly organize and properly file NEP project documentation within the same week they are received.                                                                                                                                                                                                         |
|     | <p><b>Management Response:</b> Concur. NEP project documentation will be maintained in an organized fashion at all times and will be properly filed to facilitate document retrieval.</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> 1/15/06</p>                     |
| 8   | Implement controls to exercise appropriate oversight over expenditures charged to the NEP program. The controls should include regular review of what is charged to the program for the purpose of identifying anything that is not appropriate so that corrective actions can be taken.                       |
|     | <p><b>Management Response:</b> Concur. The program administrator will create monthly expenditure reports for review by the General Manager and for reporting to the Neighborhood Enhancement Commission.</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> 12/31/05</p> |

| No. | Recommendations and Management Response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 9   | <p>Reevaluate the adequacy of the Rock the House guidelines to control cost related risks, to achieve participant compliance with requirements once rock landscaping has been provided, and to address the applicability of HIPAA requirements.</p> <ul style="list-style-type: none"> <li>Assess the adequacy of the square footage limitation using information on the average lot size in the targeted areas as well as the available funds and the volume of participation desired.</li> <li>Assess the adequacy of requirements and penalties for Rock the House participants.</li> <li>Assess the need to collect medical information from program applicants. If it is needed, take steps to ensure compliance with HIPAA requirements.</li> </ul>                                                                                                                                                                                                                          |
|     | <p><b>Management Response:</b> Concur. The following will be implemented:</p> <ul style="list-style-type: none"> <li>The determination of 5000 sq. ft. as a maximum amount was based on the standard lot size in the targeted area (R1.7 zoning – or lot sizes of up to 7000 sq. ft.). A reassessment of this measure is underway. Staff will also assess the adequacy of the related penalties.</li> <li>We recognized the problem associated with differing pricing on the rock being purchased and have worked with Purchasing on creating a standardized pricing arrangement on selected rock for the program.</li> <li>The need for sensitivity to the HIPAA requirements is unnecessary, as staff do <u>not</u> ask for medical information as was referenced in the guidelines for the program and that verbiage has been removed from the program guidelines.</li> </ul> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> 12/31/05</p> |
| 10  | <p>Establish pricing agreements designed to control the cost of Rock the House projects.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|     | <p><b>Management Response:</b> Concur (see item #9).</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> 12/31/05</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 11  | <p>Present, for City Council approval, an ordinance that establishes what NEP will consist of in terms of specific programs, the criteria that will govern those programs, and who will be responsible for implementing them.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|     | <p><b>Management Response:</b> Concur. Staff will present to City Council an ordinance to outline the NEP program, criteria and responsibilities; and the updated role and responsibilities of the Neighborhood Enhancement Commission; and to formally authorize the Citizen and Neighborhood Resources department.</p> <p><b>Responsible Party:</b> Judy Register                      <b>Completed By:</b> 6/30/06</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |



| No. | Recommendations and Management Response                                                                                                                                                                                   |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12  | Require that CNR staff obtain City Council approval before implementing any additional programs under the NEP program.                                                                                                    |
|     | <b>Management Response:</b> Concur (see item #11).<br><br><b>Responsible Party:</b> Judy Register <b>Completed By:</b> 6/30/06                                                                                            |
| 13  | Place responsibility with CNR staff for taking direct control over the administration of NEP operations and not rely on the Commission to take on these responsibilities.                                                 |
|     | <b>Management Response:</b> Concur (see item #11).<br><br><b>Responsible Party:</b> Judy Register <b>Completed By:</b> 6/30/06                                                                                            |
| 14  | Designate the personnel that will be responsible for ensuring CNR compliance with the Records Management Manual and establish a timeframe by which compliance will be achieved.                                           |
|     | <b>Management Response:</b> Concur. The records of the Neighborhood Enhancement Program are included in the CNR Records Retention Schedule.<br><br><b>Responsible Party:</b> Judy Register <b>Completed By:</b> Completed |

| No. | Recommendations and Management Response                                                                                                                                                                                                                                                                                                                                                          |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1   | The Financial Services General Manager should take steps to ensure that NEP expenditures are authorized out of, and reflected in, the appropriate departmental operating budget.                                                                                                                                                                                                                 |
|     | <p><b>Management Response:</b> Concur. Staff will move the Neighborhood Enhancement Partnership (NEP) expenditures from the capital budget to the Citizen and Neighborhood Resources' operating budget for FY 2006/07.</p> <p><b>Responsible Party:</b> Art Rullo <b>Completed By:</b> 6/30/06</p>                                                                                               |
| 2   | The City Manager and the Financial Services General Manager should reinforce to City staff, including upper management, that the only expenditures appropriate for payment are those that meet the purpose set out for the budgetary item.                                                                                                                                                       |
|     | <p><b>Management Response:</b> Concur and corrective actions have begun. The Financial Services General Manager and his staff have and will continue to proactively reinforce with all City staff that the correct expenditure account or capital project must be charged.</p> <p><b>Responsible Party:</b> Craig Clifford <b>Completed By:</b> Ongoing</p>                                      |
| 3   | The City Manager should ensure that steps are taken to assess the potential for consolidating citywide income verification processes to one area. If practicable, institute a "one stop shop" concept for qualifying applicants for programs with income ceilings.                                                                                                                               |
|     | <p><b>Management Response:</b> Concur. Staff will assess the income verification processes currently in place, in conjunction with the City Attorney's Office, and make recommendations to the City Manager regarding process improvements, as needed.</p> <p><b>Responsible Party:</b> Judy Register <b>Completed By:</b> 6/30/06</p>                                                           |
| 4   | The City Manager should ensure that steps are taken to develop citywide guidance on the requirements for safeguarding confidential citizen information.                                                                                                                                                                                                                                          |
|     | <p><b>Management Response:</b> Concur with the need to safeguard confidential information. Staff will assess further opportunities for improving the safeguarding of confidential citizen information, in conjunction with the City Attorney's' office, and make recommendations to the City Manager, as needed.</p> <p><b>Responsible Party:</b> Judy Register <b>Completed By:</b> 6/30/06</p> |

## BACKGROUND

NEP has been funded, under various program names, since FY 92/93 when a \$50,000 project was incorporated into the Capital Improvement Plan (CIP). The adopted FY 05/06 budget lists the following description for the Program.

*The Neighborhood Enhancement Partnership Program provides funding opportunities for neighborhood-based improvement projects. The NEP program seeks to preserve and promote neighborhood stability by ensuring that mature neighborhoods are equipped to address emerging or future neighborhood needs.*

**SOURCE:** City of Scottsdale Adopted FY 05/06 Budget, Volume Three, "Capital Improvement Plan."

### Neighborhood Enhancement Commission

On May 3, 1993, the City Council adopted Ordinance No. 2530 establishing a seven-member Neighborhood Enhancement Commission. The following is a list of the current Commission members and their term expirations:

|                                |          |
|--------------------------------|----------|
| John Shultz (Chair)            | 11/01/07 |
| Patricia Badenoch (Vice Chair) | 09/01/07 |
| Lisa Haskell                   | 05/01/07 |
| John Horwitz                   | 02/01/06 |
| Aaran Kern                     | 11/01/08 |
| James Pompe                    | 05/01/07 |
| Christine Schild               | 11/01/07 |

**SOURCE:** City of Scottsdale Internet site under Boards and Commissions.

Under City Charter, the Mayor and City Manager are ex-officio members without voting privileges.

The purpose of the Commission, according to Ordinance #2530, is to:

- Advise City Council on the implementation of the Neighborhood Enhancement Program, focusing on the long-term viability of Scottsdale's neighborhoods.
- Make recommendations to City Council on specific programs which are designed to prevent the decline and deterioration of neighborhoods by empowering the residents to help themselves.

The Commission is specifically charged with the duty to review projects and concepts developed or proposed by the neighborhood enhancement coordinator, the Neighborhood Commission, and citizens to assure that they reflect the concerns of neighborhoods and the community.

## **Assistance Programs Under NEP**

NEP funds are currently used to provide financial assistance for two categories of improvements; neighborhood based projects and privately owned homes.

### ***Financial Assistance for Improvement Projects***

As currently structured, this program provides financial assistance for improvement projects in areas of the City that are more than fifteen years old. Qualified groups are defined as either:

*Neighborhood Group - neighborhoods that have organized voluntarily and do not have mandated fee collection or assessment capabilities. Applications should represent 50 percent of the specified neighborhood (i.e., block, complex, or street).*

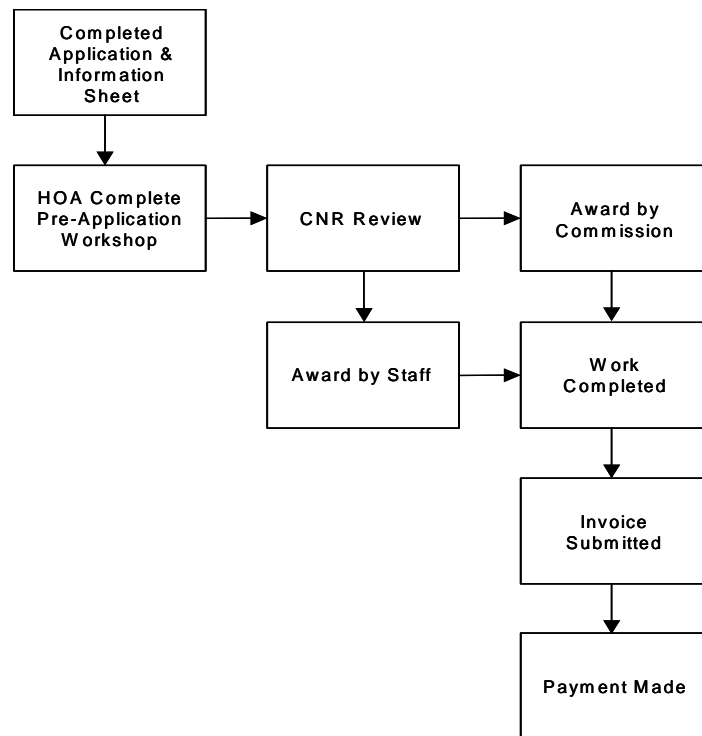
*Homeowner's Association (HOA) – neighborhoods that have mandated monthly fees and assessment capabilities and possess a source of revenue. Applications must be approved by the HOA governing board prior to submittal.*

Requests are evaluated based on age of neighborhood and financial need. Other considerations include the ability to sustain any on-going costs associated with the project and the level of resident support/involvement in the proposed project.

Applications for assistance must include the following information:

- Project budget, three bids if the project is over \$1,000, and before photos.
- Documentation of communication with the neighborhood or community and the results of a neighborhood poll.
- Written permissions from private property owners adjacent to the project.

CNR staff conducts an initial review and, in most cases, schedules a meeting with the appropriate representatives to discuss the process. Staff is authorized to approve requests up to \$500 (up to \$1,500 with a demonstrated safety need); applications for amounts exceeding this threshold are taken to the Commission for approval. If a project is approved, applicants have six months to complete the work (an extension may be requested) and submit documentation of the cost and completion of the work. The flowchart on the following page shows the typical process after an application is submitted.



Neighborhood groups are not required to provide matching funds (participation is required where feasible or appropriate) and there is no established cap on the amount that can be requested. Multiple requests can be submitted and approval of one project does not preclude approval of subsequent requests.

Financial assistance provided to HOAs fall under slightly modified rules. First, applications are only accepted twice a year (May and November) unless there is a critical safety need. Second, a representative for the HOA must attend a pre-application workshop two months prior to the application deadline. The insert below is an example of the timeframe for an application from an HOA.

**FALL**

September – Orientation Workshop

November – Application deadline

December – Determination of funding awards by the Commission

Third, HOA representatives are encouraged (but not required) to attend a financial management workshop presented by City staff. Finally, there is a requirement for matching funds, a \$2,500 cap on the assistance available, and a limit (no more than one in a two year period) on the projects that will be approved.

### ***Assistance Available to Homeowners***

Rock the House was initiated in late FY 03/04 to target homeowners with code violations. To qualify, the home must be at least fifteen years old, located within City limits, and in an area without a functioning HOA. Applicants must fall at or below the low-income guideline for Arizona (as established by HUD) and there must be a partner such as another neighbor, youth group, church organization, or outreach program willing to help with the project.

Applications may be submitted throughout the year and CNR staff have been authorized to approve any requests that meet established guidelines (income threshold, age of house, and location). If the application is approved, the City will purchase landscaping rock (based on homeowner selection from a range of available colors and sizes) for the front and side yards and arrange for delivery of the material. The homeowner is responsible for preparation of the yard and arranging for the installation of the material.

### **Source and Use of Funds**

The Capital Project Fund is project-based. As a result, the initial project budget (as well as any subsequent increases) rolls forward each year until the project is closed out.<sup>2</sup> The table below shows the historical record of the adopted budget for NEP.

| <b>FY</b> | <b>Budgeted</b>      | <b>Inception-to-Date Total</b> |
|-----------|----------------------|--------------------------------|
| 92/93     | \$50,000             | \$50,000                       |
| 93/94     | \$75,000             | \$125,000                      |
| 94/95     | -0-                  | \$125,000                      |
| 95/96     | \$50,000             | \$175,000                      |
| 96/97     | \$52,000             | \$227,000                      |
| 97/98     | \$54,000             | \$281,000                      |
| 98/99     | \$81,000             | \$362,000                      |
| 99/00     | \$108,200            | \$470,200                      |
| 00/01     | \$112,500            | \$582,700                      |
| 01/02     | \$117,000            | \$699,700                      |
| 02/03     | \$140,600            | \$840,300                      |
| 03/04     | Unknown <sup>3</sup> | \$752,100 <sup>4</sup>         |
| 04/05     | -0-                  | \$752,100                      |
| 05/06     | \$75,000             | \$827,100                      |

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<sup>2</sup> Appropriations expire at the end of the fiscal year but the budget is re-appropriated each year until the project is completed.

<sup>3</sup> Because of a change in budget presentation, we could not determine if a budget increase was approved in FY 03/04.

<sup>4</sup> Because of a change in budget presentation, we could not determine the reason for the decrease in the inception-to-date adopted budget.

To arrive at the available budget for a capital improvement project, the inception-to-date expenses must be subtracted from the adopted budget. As of July 1, 2005, slightly more than \$754,000 had been recorded against the project account leaving an available budget of \$72,245 at the start FY 05/06. This amount is less than the \$75,000 authorized because expenditures charged to the project in FY 04/05 exceeded the budget available.

In reality, though, more than \$764,000 has been expended under the auspices of NEP since the beginning of the program. This total differs from the amount recorded as inception-to-date expenditures because management elected to use budget authorization for another project (Neighborhood Revitalization) as the funding source when the adopted budget for NEP had been consumed. Expenditures during the last two fiscal years are summarized in the insert below.

**Source & Use of Funds  
Neighborhood Enhancement Program**

|                                          | FY03/04             | FY04/05                           |
|------------------------------------------|---------------------|-----------------------------------|
| <b>SOURCE OF FUNDS</b>                   |                     |                                   |
| Budget available at start of fiscal year | <u>\$98,007</u>     | <u>\$43,041<sup>5</sup></u>       |
| <b>USE OF FUNDS</b>                      |                     |                                   |
| Enhancement Programs                     |                     |                                   |
| Requests from HOAs                       | 20,218              | 26,779 <sup>6</sup>               |
| Requests from Neighborhood Groups        | 18,434              | 897                               |
| Landscape Assistance (Rock the House)    | <u>350</u>          | <u>12,077<sup>6</sup></u>         |
| Total Enhancement Programs               | 39,002              | 39,753                            |
| Program Assistance                       |                     |                                   |
| G.A.I.N.                                 | 4,146               | 2,082                             |
| EnviroKids Fest 2004                     | 4,266               | 0                                 |
| Trash & Treasures                        | <u>1,520</u>        | <u>5,660</u>                      |
| Total Program Assistance                 | 9,932               | 7,742                             |
| Other                                    |                     |                                   |
| Clean & Lien                             | 6,005               | 0                                 |
| Rebuilding Together                      | 0                   | 3,000                             |
| Grant to Tonalea Elementary School       | 0                   | 5,873 <sup>6</sup>                |
| Supplies                                 | <u>27</u>           | <u>0</u>                          |
| Total Other                              | 6,032               | 8,873                             |
| <br>Total Use of Funds                   | <br><u>54,966</u>   | <br><u>56,368</u>                 |
| <br>Excess (deficit) of available budget | <br><u>\$43,041</u> | <br><u>(\$13,327)<sup>6</sup></u> |

<sup>5</sup> No additional authorization was approved in FY 04/05.

<sup>6</sup> NEP expenditures (\$2,500 of HOA projects, \$2,199 of Landscaping Assistance, and all of the Tonalea costs) were charged to another project (Neighborhood Revitalization).

## **SCOPE AND METHODOLOGY**

The objectives of this audit were to:

- Determine whether NEP expenditures are adequately controlled to ensure that they are only made for appropriate purposes.
- Determine if appropriate management controls are in place to effectively and efficiently manage NEP.
- Determine whether City Code establishes authority for the Commission to make NEP administrative decisions.
- Determine whether use of a capital improvement project funding mechanism is appropriate for NEP.
- Determine if there are any other issues that need to be addressed.

To address the objectives above, we:

- Interviewed CNR management and staff, the Assistant City Manager over CNR, the Community Assistance Manager, and City Clerk staff.
- Reviewed the Scottsdale Revised Code to identify applicable sections that address the subject matter of this audit and applied them as criteria.
- Reviewed documentation provided by CNR staff that set out guidelines and procedures for implementing NEP and related programs.
- Reviewed the CNR Internet site to obtain background information on NEP and related programs.
- Reviewed all NEP expenditures listed in the cost center's FY 03/04 and FY 04/05 trial balance. We also reviewed all NEP expenditures that we identified as being paid out of the Neighborhood Revitalization cost center in FY 04/05. Our intent was to conduct a review of all NEP expenditures for the above-mentioned fiscal years but we cannot be sure that we accomplished this. We found that all NEP expenditures were not paid out of the NEP cost center. As noted, some were paid out of the Neighborhood Revitalization cost center. There is the possibility that we may not have identified other NEP expenditures that were charged to cost centers that do not make logical sense since this had happened before. As a result, we have to identify this issue as a scope limitation.
- Reviewed the Neighborhood Education Manager's (NEP Administrator) files to verify adequate supporting information was present for expenditures made.
- Reviewed the City Charter and Arizona Revised Statute sections that address the expenditures of funds relative to the established budget.
- Reviewed professional literature to identify performance measures criteria for effective management control.



- Searched the City's Administrative Regulations to identify any guidance on requirements for safeguarding confidential citizen information in the City's possession.
- Reviewed the City Clerk's Internet site to obtain records retention criteria.
- Reviewed City budget books for FYs 03/04, 04/05, and 05/06.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, Section 2-117, *et seq.* Survey work and audit testing took place from July to October 2005, with Gail Crawford and Ramon Ramirez conducting the work.

**OBJECTIVE 1: DETERMINE WHETHER NEP EXPENDITURES ARE ADEQUATELY CONTROLLED TO ENSURE THAT THEY ARE ONLY MADE FOR APPROPRIATE PURPOSES.**

Finding: More stringent oversight of expenditures would help ensure that they comply with the program's stated purpose and with established procedures.

**Criteria:** NEP expenditures should support the program's intended purpose as set out for the time period. In addition, the approval process should comply with the criteria established within NEP guidelines.

**Condition:** We reviewed all identified NEP expenditures for Rock the House from inception-to-date and found that each payment was supported by the presence of applications and documentation that could permit income verification to help ensure that program requirements were met.

We also reviewed all identified payments for financial assistance for improvement projects or other proposed activities processed during FY 03/04 and FY 04/05. We found numerous charges that did not meet written parameters for the program as well as instances where documentation requirements were not followed. The following matrix summarizes the issues identified during our review.

| PROJECT OR EVENT NAME                                               | Project or Event Not Within NEP Scope | Application Documents Not Present | No Commission Approval | Expenditures Exceed Guidelines Or Amount Approved |
|---------------------------------------------------------------------|---------------------------------------|-----------------------------------|------------------------|---------------------------------------------------|
| FY 03/04 Getting Arizona Involved in Neighborhoods (G.A.I.N.) Event | X                                     | X                                 |                        |                                                   |
| FY 04/05 G.A.I.N. Event                                             | X                                     |                                   |                        |                                                   |
| FY 03/04 Treasures and Trash Event                                  | X                                     | X                                 | X                      |                                                   |
| FY 04/05 Treasures and Trash Event                                  | X                                     | X                                 |                        | X                                                 |
| FY 03/04 EnviroKidsFest Event                                       | X                                     |                                   |                        |                                                   |
| FY 04/05 Tonalea Elementary School (campus beautification project)  | X                                     |                                   |                        |                                                   |
| FY 04/05 Rebuilding Together Event                                  |                                       | X                                 | X                      |                                                   |
| FY 03/04 Desert Cove & 128 Street (street light installation)       |                                       | X                                 | X                      |                                                   |
| FY 04/05 El Dorado Hermosa (landscaping due to flooding)            |                                       | X                                 | X                      | X                                                 |
| FY 03/04 Paradise Estates HOA (irrigation system)                   |                                       |                                   | X                      |                                                   |

Detail on the projects or events referenced in the table are as follows:

- G.A.I.N. – Use of funds (\$2,081 in FY 04/05 and \$4,145 in FY 03/04) to purchase T-shirts, various supplies, and door prizes for neighborhood block parties. Moreover, there was no application on file for either year; the only documentation available consisted of a letter requesting assistance for the FY 03/04 event.
- Treasures and Trash – Use of funds (\$1,520 in FY 03/04 and \$5,660 in FY 04/05) to purchase gloves, hats, T-shirts, vests, and hiker bottles for a litter collection event. Moreover, application documents were not available for either event; only a letter could be produced for the more recent event. Finally, the amount charged to the program in FY 04/05 exceeded the approved request by more than \$1,600.
- EnviroKids Fest – Use of funds (\$4,266 in FY 03/04) for an environmental education experience for children. Commission minutes indicate that the budget for the event (the amount authorized in the citywide adopted operating budget) had been expended; the application for NEP funding was simply an effort to increase the available budget.
- Tonalea Elementary School Landscaping Project – Use of funds (\$5,873 in FY 04/05) for a "campus beautification project." Schools are not listed in the definition of qualified parties as set out in the NEP application guidelines.
- Rebuilding Together – Use of funds (\$3,000 in FY 04/05) to sponsor repairs for three elderly, low-income homeowners. While the sponsorship was discussed at a Commission meeting, there was no indication that the Commission formally approved the use of funds.
- El Dorado Hermosa project – Use of funds (\$3,000 in FY 04/05) to repair landscaping damaged by flooding. The amount exceeded the cap set for assistance available to HOAs, required documentation such as bids and proof of neighborhood outreach could not be provided, and Commission approval was not obtained. The only documentation (other than the approved check requisition) to support the payment consisted of a letter from the HOA vice president (directed to the Mayor and Council).
- Desert Cove and 128th Street Project – Use of funds (\$4,417 in FY 03/04) to install streetlights. Commission approval was not obtained and there was no application or related materials on hand for this project. Of significant note was the fact that the related check requisition, signed by the Neighborhood Services Director, indicated that the Commission approved the expenditure at a March 2004 meeting. This meeting did not take place, raising the question of how and why the statement appeared on the check requisition.

- Paradise Estates HOA – Use of funds (\$2,317 in FY 03/04) to help fund replacement of an irrigation system without Commission approval. Similar to the immediately preceding expenditure, the related check requisition, signed by the Neighborhood Services Director, indicated that the Commission approved the expenditure.

**Cause:** Liberal interpretation of the purpose of NEP.

Insufficient oversight.

Management override of existing controls – In each of the three instances in which financial assistance was provided for projects not taken to the Commission for review, the Neighborhood Services Director stated that it was within his discretion to approve projects outside the usual and customary process.

**Effect:** NEP funds are used for other than their stated purpose. Established guidelines and procedures are not enforced.

**Recommendations:** Assess proposed projects in light of the NEP program's intended purpose.

Comply with established guidelines set out for the request and approval of NEP project funding.

Ensure the accuracy of information on check requisitions when signing them.

**Finding:** Sufficient procedures have not been established to ensure compliance with City Charter or Arizona State Law regarding the expenditure of public funds.

**Criteria:** According to the description of the budget process set out in Volume One of the FY 04/05 Budget, the CIP is adopted at a project level. Arizona Revised Statute (ARS), §42-17106, states that a city shall not:

1. Spend money for a purpose that is not included in its budget.
2. Spend money or incur or create a debt, obligation or liability in a fiscal year in excess of the amount stated for each purpose in the finally adopted budget for that year, except as provided by law, regardless of whether the city has received at any time, or has on hand, monies or revenue in excess of the amount required to meet expenditures, debts, obligations and liabilities that are incurred under the budget.

It further provides that the governing body may transfer monies between budget items if all of the following apply:

1. The monies are available.
2. The transfer is in the public interest and based on a demonstrated need.
3. The transfer does not result in a violation of the limitations prescribed in Article IX, 19 and 20, Constitution of Arizona.
4. A majority of the members of the governing body votes affirmatively on the transfer at a public meeting.

City Charter, Article 6, Section 5, states that Council may insert new items or may increase or decrease items of the budget. Before action to insert additional items or increase any appropriation, notice must be published at least once setting forth the proposed increase and fixing a place and time, not less than five days after publication, at which time Council will hold a public hearing.

**Condition:** During FY 04/05, NEP expenditures exceeded the available budget by more than \$3,000 (actual payments plus incurred obligations). In addition, NEP expenditures in excess of \$10,500 had been recorded against another capital project. The NEP Administrator stated that the total would go even higher once all NEP commitments for FY 04/05 were processed.

When asked about this situation, the NEP Administrator explained that due to a misunderstanding, a NEP budget request was not submitted for FY 04/05. The error was not caught until the program started showing a deficit in available funding. At that time, they approached the Assistant City Manager over CNR and asked about using Neighborhood Revitalization funds to cover NEP expenditure commitments and he agreed.

The Assistant City Manager stated that the decision was made to use Revitalization funds for the NEP commitments because the purpose of the Revitalization program was broad enough to cover the specific projects to which NEP funds had been committed. We disagree. In the FY 04/05 CIP budget book, the description of the Neighborhood Revitalization project number N0501 is "Neighborhood improvement (alleys, streets, right-of-ways, etc.) in the area of the city south of Camelback Road to the southern city limits." The NEP commitments paid from Revitalization do not fit under this description because the work was done on private property and, in one instance, on the campus of an elementary school.

Charging NEP expenditures directly to the Revitalization program essentially obscures the fact that public funds were spent on a purpose not included in the adopted budget and that necessary City Council approval of a budget transfer was not obtained.

**Cause:** Insufficient control environment.

**Effect:** The NEP budget was effectively increased without the required City Council approval.

**Recommendation:** The City Manager and the Financial Services General Manager should reinforce to City staff, including upper management, that the only expenditures appropriate for payment are those that meet the purpose set out for the budgetary item.

**OBJECTIVE 2: DETERMINE IF APPROPRIATE MANAGEMENT CONTROLS ARE IN PLACE TO EFFECTIVELY AND EFFICIENTLY MANAGE NEP.**

|                                                                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Finding: Establishing relevant quantifiable performance measures and tracking related information would provide management with a basis to periodically review the success and direction of the NEP program |
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**Criteria:** Effective management controls should be in place to ensure that appropriate goals and objectives are met; resources are safeguarded and used efficiently, economically, and effectively; and reliable data is captured, maintained, and fairly disclosed.

Performance measurement is an essential component of management control to ensure that budget decisions focus on results and outcomes. Procedures should ensure that program performance is evaluated at least annually or more often should there be significant changes in the mission or goals of the program. Among other things, performance measures should:

- Be based on program goals and objectives that tie to a statement of program mission or purpose and measure program outcomes.
- Be verifiable, understandable, consistent, and timely.
- Be monitored and reported internally and externally.

**Condition:** As of completion of this audit, there was no formal identification of data to indicate that the purpose of the NEP program is being achieved. The NEP Administrator acknowledged that quantifiable performance measures have not been established. Available information allows identification of the number of cases completed during a specific period but this is only raw data on activity volume.

**Cause:** CNR staff has focused on service delivery. Other activities such as developing performance measures and tracking of statistical information have not been given the same importance.

**Effect:** The lack of reliable summary information of NEP program results does not provide management with the necessary information for evaluating the success or continuing need for the program.

**Recommendation:** Establish measurable and meaningful performance goals for use in periodic assessment of NEP program operations. Develop written procedures that set out how and how often this information is to be gathered and reported and to whom the reports are to be presented.

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|-------------------------------------------------------------------|
| Finding: Established NEP program criteria are not being enforced. |
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**Criteria:** The NEP program application establishes the requirement that approved projects must be completed within six months unless a time extension has been granted. Requests for time extensions are to be in writing and submitted to the CNR office prior to the end of the six-month completion deadline.

**Condition:** During our audit work, we noted that the NEP Administrator maintained a schedule of NEP projects, which indicates the month and year of project approval, if applicable. The schedule also contains a "Status" column, which in some cases lists the date and amount of NEP payments made on the project or time extensions granted. We noted that in some cases the status column had no entry even though more than six months had passed since project approval. When asked, the NEP Administrator acknowledged that there is no mechanism in place to systematically identify approved projects that have not been completed within the required six-month period. She further stated that reimbursement would most likely be provided on projects even if no extension was requested and project completion went beyond the six-month period.

**Cause:** Insufficient controls to ensure adherence to established requirements.

**Effect:** Compliance is not achieved within time limitations set for project completion. Without timely follow-up, the cancellation of previously approved projects could go unnoticed and additional project approval could be unnecessarily restricted due to inaccurate information on NEP fund availability.

**Recommendation:** Either modify requirements for the timely completion of projects or adhere to the existing requirements with the use of a tickler system designed to trigger follow-up inquiries as to project status prior to the expiration of the six-month project completion window.



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|-----------------------------------------------------------------------------------------------------------------------------------|
| Finding: Efficiencies can be achieved with the consolidation of similar screening responsibilities into a single functional area. |
|-----------------------------------------------------------------------------------------------------------------------------------|

**Criteria:** City operations should be implemented in the most efficient manner.

**Condition:** Rock the House program guidelines indicate that applicants must fall at or below the low-income guideline for Arizona (as established by HUD) using proper proof of hardship such as tax returns, medical bills, retirement, or physical condition. The applicant provides the confidential financial and/or medical records and the NEP Administrator reviews them to assess whether HUD income guidelines are met. The NEP Administrator keeps the applicant documents in her set of files. She mentioned that she obtains a list of the HUD income guidelines from CNR staff in a separate area that uses them to qualify applicants for a housing rehabilitation program that they implement.<sup>7</sup> They maintain their own records. The NEP Administrator stated that while she had not received formal training on income verification and she had no written procedures for conducting the review, she had obtained information on what to do from staff implementing the housing rehabilitation program.

We also spoke with the Community Assistance Manager in Community Services about similar income verification work done by staff in his area to qualify applicants for various housing programs. The same HUD income guidelines are used for that process. He indicated that there are other areas of Community Services that perform their own income verification process to qualify people for social programs. He stated that although the clients and income guidelines may be the same, they each do their own separate reviews and separately maintain records. The separate implementation of income verification processes indicates a duplication of effort at several locations. The greater the number of areas conducting the same verification process, the greater the potential for inconsistency and inefficiency.

**Cause:** Lack of citywide coordination and centralization of similar activities.

**Effect:** Maximum efficiency is not achieved and the potential for inconsistent application of requirements is increased. Applicants for programs that have income thresholds may unnecessarily undergo redundant income verification.

**Recommendation:** The City Manager should ensure that steps are taken to assess the potential for consolidating citywide income verification processes to one area. If practicable, institute a "one stop shop" concept for qualifying applicants for programs with income ceilings.

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<sup>7</sup> After the close of audit fieldwork, the housing rehabilitation responsibilities were transferred to the Community Assistance Office.

|                                                                                                 |
|-------------------------------------------------------------------------------------------------|
| Finding: The Rock the House program could be more equitably advertised to potential applicants. |
|-------------------------------------------------------------------------------------------------|

**Criteria:** Implementation of City programs should be equitable to all potential applicants.

**Condition:** In conducting our audit work, we noted that the Rock the House program was not on the CNR Intranet site as the NEP program was. When asked why this was the case, the NEP Administrator stated that this program is typically used when one of CNR's code inspectors found that a homeowner may be having trouble keeping up with their yards because of financial or health difficulties. She stated that the code inspectors might inform a citizen of the Rock the House program when they provide the citizen with an administrative citation for a code violation. We observed notes left at the bottom of some administrative citations informing the citizen that they may be able to get rock for their yard. The NEP Administrator could not cite any other active solicitation for the Rock the House program to potential applicants although she did indicate that word of mouth also promotes the program.

As currently implemented, the only direct solicitation of specific individuals to apply for Rock the House funds are focused on identified code violators. Other than word of mouth, there is no mechanism to advertise the program to the general public.

**Cause:** Focus on helping people attain compliance with City Code has led to actively advertising the program to those who have received an administrative citation for code violation.

**Effect:** Advertising of the Rock the House program is skewed toward code violators raising the appearance of inequitable application.

**Recommendation:** Develop an equitable form of advertising the Rock the House program if it is to continue.

|                                                                                   |
|-----------------------------------------------------------------------------------|
| Finding: NEP project documents should be organized and filed on a timelier basis. |
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**Criteria:** Program documents should be maintained in an organized fashion at all times in order to facilitate document retrieval and assumption of responsibilities in the event of staff turnover.

**Condition:** During our work to review the appropriateness of NEP expenditures, we accessed documents related to individual projects. The NEP Administrator provided access to these documents. During our review, we noted that some of the project files were maintained in an organized fashion, by calendar year, in various three ring binders. This facilitated our review of the files allowing us to readily locate the documents we were searching for. However, there were other documents that had not yet been filed in such an organized manner. Instead, these project documents were loosely stacked throughout the NEP Administrator's office. She indicated that she had not filed NEP project documents going back to December 2004. Access to these documents required the NEP Administrator to first go through them to identify what they were and then provide them to us. This added to the time involved in our review and it led to uncertainty at any given point in time as to whether we had all the documentation that related to the project we were reviewing.

**Cause:** Focus on program implementation with less attention paid to document filing and maintenance.

**Effect:** Inefficiency in program operations. NEP project documents are not maintained in a manner that would permit ready access or that would provide assurance that all relevant documents are present. In addition, there is no assurance that a seamless transition would occur in the event of staff turnover.

**Recommendation:** Regularly organize and properly file NEP project documentation within the same week they are received.

**Finding:** Additional efforts are needed to: adequately control the cost of assistance provided to homeowners under the Rock the House program; to monitor the NEP adopted budget; and to develop effective program guidelines.

**Criteria:** Program administration should include elements of cost control and monitoring of available budget. Sufficient oversight should be exercised over programs to help ensure that only appropriate expenditures are charged against them given the program's purpose and approved spending limits.

**Condition:** The NEP Administrator carries out a wide range of duties. She reviews applications for completeness and verifies that they meet program criteria. She maintains contact with applicants to verify project completion and initiates, and in some cases signs, check requisitions to make payments for approved projects. She is also involved with presenting status information to the Commission. The Neighborhood Services Director is also actively involved in administering the NEP program. We noted that he has made administrative decisions to approve projects without Commission review, he signs off on check requisitions when required, and he also is involved with keeping the Commission apprised of program activity. However, we noted that there appears to be a lack of sufficient controls for monitoring expenditures charged against the NEP cost center and for controlling Rock the House costs.

We found six charges for a total of \$6,000 recorded against the NEP cost center in FY 03/04 for a code enforcement process referred to as "clean and lien." The NEP Administrator stated that she was unaware that these expenditures were charged to the NEP cost center. CNR management agreed that the charges were not appropriate for payment out of the NEP program and must have been charged to NEP as the result of various mistakes. These inappropriate charges would have been identified and potentially corrected had a regular review of program expenditures been implemented as part of an oversight function.

In addition, we found that expenditures in excess of the amount approved for the FY 04/05 Treasures and Trash event had been charged against the NEP account. The NEP Administrator stated that anyone in CNR could have expenditures charged against the project and she did not have a process in place to identify situations in which expenditures exceeded the amount authorized.

We also noted a lack of control over Rock the House expenditures. During FY 04/05 and the first six months of FY 05/06, there was no limit on the size of yard that could be landscaped under Rock the House. An applicant would be approved for program participation and NEP would provide whatever volume of rock needed to cover the front yard. In one particular case, more than 60

tons of rock at a cost of a little over \$1,600 was provided for a yard that measured in excess of 7,300 square feet. The average cost for the other 19 Rock the House projects completed in FY 04/05 was less than \$450. It was not until the NEP Administrator was measuring this yard that the need to establish size limits was identified. At that time, the NEP Administrator and the Neighborhood Services Director agreed to set a 5,000 square foot limit for Rock the House projects. According to the NEP Administrator, this limit was put in place sometime between January and March of this year, however, it is not set out in writing. Instead, the NEP Administrator stated that she verbally relays the limit to applicants in her conversations with them. Based on information we obtained from a rock vendor, 1 ton of rock is needed for every 120 square feet to provide 2 inches of coverage. Using this information and applying the \$24 per ton cost the City obtains under the current pricing agreement, this means that it would cost \$1,000 for a 5,000 square foot yard.

While we agree with the concept of setting a yard size limit, we believe that it should relate to the program's purpose, focus, targeted participation, or some other relevant information in order to achieve desired results. There was no indication that this was the case. The Rock the House program targets homes that are a minimum of fifteen years old. However, there is no indication that a list of neighborhoods of this age was assembled to arrive at the average lot size for use in setting square footage limits. In addition, we found no documentation that sets out the purpose and goals of the Rock the House program in terms of performance expectations that could be factored into the equation when determining limits. Nor was there any indication that the available budget and the desired number of participants were factored in. Without using such information, establishing limits is only done arbitrarily.

In addition, we found that there was no standardization in the size or color of rock that would be provided to allow the purchases to be made using a pre-established pricing agreement with a vendor. Rock the House participants were permitted, as of the close of fieldwork, to select the size of rock and pick from eight different rock colors. Only two of these rock varieties were covered by a pre-established pricing agreement. The remaining rock (considered specialty rock) required a separate purchase order each time the rock was selected. Purchasing staff had to obtain verbal price quotes, a situation that created additional work for that division. The price also fluctuated based on current needs. For example, one vendor charged the City (within a three day time span) \$19.10 per ton and \$27.50 per ton for the same color and size of rock.

We also found that Rock the House was implemented without any requirements for continued homeownership or re-payment should the house be sold within a stated period of time and no recourse (other than usual code enforcement) should the homeowner not maintain the property in compliance

with City Code. Such requirements are set out in guidelines for the recently established Landscape Assistance Program (LAP), which provides installation of water conserving, low maintenance landscape at no cost to qualified low and moderate income homeowners. The LAP guidelines also establish a 5,000 square foot limit and, according to the NEP Administrator, the application for LAP and Rock the House are one in the same and she will be screening them. In addition, the LAP guidelines reference the Rock the House program and some of its requirements. However, the NEP Administrator stated that the LAP guidelines do not apply to Rock the House. As a result, there are no written guidelines for Rock the House that set out similar requirements for their participants.

Finally, we noted that current Rock the House guidelines may inadvertently subject CNR to some significant federal requirements. In referencing income requirements for applicants, Rock the House guidelines indicate that proof of hardship may include "medical bills" or "physical condition." Of note is that receiving an applicant's health information may subject CNR to burdensome Health Insurance Portability and Accountability Act (HIPAA) requirements. These extensive requirements address the privacy and protection of medical information. While we found no medical records or information in the Rock the House applicant files, it is important that CNR be aware of the ramifications of obtaining such information. We believe that this Rock the House provision should be reevaluated in light of the HIPAA requirements that would apply.

**Cause:** Emphasis has been placed on service delivery to participants with less attention to the establishment of cost controls.

**Effect:** Inappropriate charges to the NEP cost center go undetected and the funds are used for other than their stated purpose.

Limits are arbitrarily determined and not tied to program goals or objectives.

Rock the House project costs are not subject to an upper limit and could vary significantly from one week to the next even if the same material is used. In addition, permitting program participants to select specialty rock results in the inefficient use of Purchasing staff time because they must call and obtain verbal quotes each time a specialty rock is ordered as opposed to ordering rock already under a pricing agreement.

Rock the House participants are not required to reimburse the City if they do not maintain their rock landscaping in an acceptable manner.

CNR may be responsible for compliance with HIPAA requirements if medical information is obtained as the result of a Rock the House application.

**Recommendations:** Implement controls to exercise appropriate oversight over expenditures charged to the NEP program. The controls should include regular review of what is charged to the program for the purpose of identifying anything that is not appropriate so that corrective actions can be taken.

Reevaluate the adequacy of the Rock the House guidelines to control cost related risks, to achieve participant compliance with requirements once rock landscaping has been provided, and to address the applicability of HIPAA requirements.

- Assess the adequacy of the square footage limitation using information on the average lot size in the targeted areas as well as the available funds and the volume of participation desired.
- Assess the adequacy of requirements and penalties for Rock the House participants.
- Assess the need to collect medical information from program applicants. If it is needed, take steps to ensure compliance with HIPAA requirements.

Establish pricing agreements designed to control the cost of Rock the House projects.

**OBJECTIVE 3: DETERMINE WHETHER CITY CODE ESTABLISHES AUTHORITY FOR THE COMMISSION TO MAKE NEP ADMINISTRATIVE DECISIONS.**

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|---------------------------------------------------------------------------------------------------------------------------------|
| Finding: CNR staff rely on the Commission to make administrative and other decisions that go beyond the Commission's authority. |
|---------------------------------------------------------------------------------------------------------------------------------|

**Criteria:** The actions of the Commission should be limited to the authority given to them in the enabling Ordinance No. 2530. According to the "Purpose; powers and duties" section of that Ordinance, the Commission will:

- Advise City Council on the implementation of the Neighborhood Enhancement Program, focusing on the long-term viability of Scottsdale's neighborhoods.
- Make recommendations to the City Council on specific programs which are designed to prevent the decline and deterioration of neighborhoods by empowering the residents to help themselves.
- Review projects and concepts developed or proposed by the neighborhood enhancement coordinator, the neighborhood commission, and citizens to assure that they reflect the concerns of neighborhoods and the community.

**Condition:** Because the Ordinance that establishes the Commission indicates that they will advise and make recommendations to City Council on NEP implementation, we expected that NEP, and what it consists of, would be codified. However, we found no codification of NEP, the specific programs that would be implemented under it, the parties responsible for executing the programs, or the guidelines that were to be adhered to. Instead, NEP is currently being implemented based on interactions between CNR staff and the Commission, with no indication that Council approval is being sought for specific programs being pursued. This appears contrary to the authority provided to the Commission. Also of note was that we could not find a City position with the title of neighborhood enhancement coordinator as referenced in the Ordinance that established the Commission.

In addition, we noted that Council approval was not obtained to implement the Rock the House program. The NEP Administrator stated that this program was discussed with the Commission to let them know the portion of the NEP budget that would be used for Rock the House. However, CNR staff administers Rock the House and the Commission does not approve or deny these applications. We do not believe that merely informing the Commission of the Rock the House program is a sufficient process for initiating a program using NEP funds. The Commission's role is to advise and make recommendations to City Council on specific programs, which are designed to prevent the decline and deterioration of neighborhoods by empowering the residents to help themselves. This apparently did not take place since there is no indication of Council approval of the Rock the House program.



Moreover, the NEP guidelines currently in use indicate that CNR staff will review NEP applications requesting less than \$500 and they will review applications requesting up to \$1,500 if a critical safety need is demonstrated. These guidelines indicate that the Commission reviews all other applications. The NEP Administrator confirmed that the Commission has the final say on whether to approve application requests over the above-cited thresholds.

There are further indications that CNR staff rely on the Commission to make final decisions on application approval. We observed check requisition forms, completed by CNR staff to make payments on NEP projects, that contain a statement that the Commission approved the project. In addition, CNR staff generates an attachment to the project application package. On this attachment is an application status box, which is completed to indicate whether the application was approved. We observed notations are often written in to indicate that the Commission approved the project. In addition, the NEP application indicates that "routine maintenance-type projects as determined by the Neighborhood Enhancement Commission" are not eligible for the NEP program. This is a further indication that the Commission has taken an active role in the administration of the program.

The information above indicates that CNR staff rely on the Commission to make administrative decisions on NEP program operations. Based on the enabling ordinance this goes beyond the Commission's authority.

**Cause:** Inaccurate understanding of the Commission's role.

**Effect:** CNR staff rely on the Commission to go beyond its authority as set out in the enabling ordinance. CNR staff are not taking direct control over the administration of the NEP program.

**Recommendations:** Present, for City Council approval, an ordinance that establishes what NEP will consist of in terms of specific programs, the criteria that will govern those programs, and who will be responsible for implementing them.

Require that CNR staff obtain City Council approval before implementing any additional programs under the NEP program.

Place responsibility with CNR staff for taking direct control over the administration of NEP operations and not rely on the Commission to take on these responsibilities.

**OBJECTIVE 4: DETERMINE WHETHER USE OF A CAPITAL IMPROVEMENT PROJECT FUNDING MECHANISM IS APPROPRIATE FOR NEP.**

Finding: Authorizing NEP expenditures through the capital budget should be re-evaluated since the program does not fall within the current guidelines established for capital improvement projects.

**Criteria:** According to the Governmental Accounting Standards Board (GASB), the capital project fund is a project-oriented fund that is to be used to account for the acquisition or construction of major capital facilities.

*Capital project funds – to account for financial resources to be used for acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).*

**SOURCE:** Governmental Accounting and Financial Reporting Standards as published by the Governmental Accounting Standards Board.

According to "Governmental Accounting, Auditing and Financial Reporting Using the GASB 34 Model" (the Blue Book) published by the Government Finance Officers Association, the routine purchase of items should be reported in the General Fund with the Capital Projects Fund reserved for major capital acquisition or construction activities, especially those that would distort financial resources trend data if not reported separately from a government's operating activities.

According to the City's FY 04/05 CIP document, the following guidelines are used to determine if a project would be classified as a capital improvement.<sup>8</sup>

- Relatively high monetary value and long life (\$25,000 and five years).
- Results in the creation of a fixed asset or the revitalization of a fixed asset.

Examples of projects that would qualify include:

- Construction of new facilities; remodeling or expansion of existing facilities.
- Purchase, improvement, and development of land.
- Operating equipment and machinery for new or expanded facilities.
- Planning and engineering costs related to specific capital improvements.
- Street construction, reconstruction, resurfacing, or renovation.

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<sup>8</sup> According to statements included in Volume Three of the Adopted FY 04/05 Budget "Capital Improvement Plan."

**Condition:** The capital budget is currently used as the authorization mechanism for NEP. The Program, however, does not meet the established criteria for a capital project. While the amount requested during the budget exceeds the \$25,000 threshold set for capital projects, related expenditures do not result in the creation or revitalization of a City fixed asset. In addition, there is no defined scope of the NEP program that can be used to evaluate the amount requested and no point of completion in the traditional sense of a capital project. Instead, NEP is an ongoing funding mechanism for neighborhood grants and social services related to homeowner improvement projects. Moreover, the capital project has become a pot of money to be used to cover a series of non-related expenditures that should have been reflected in the operating budget.

The Neighborhood Services Director provided historical perspective over the reason why the capital budget has been used to authorize NEP expenditures. He stated that this was done to allow unexpended funds in one fiscal year to carry over and be available for the next fiscal year. This carry over does not occur when the expenditures are authorized out of the operating budget. In that case, the authorization expires at the end of the fiscal year and no carry over occurs.

**Cause:** Historical practice initiated to permit unexpended NEP funds to carry over to subsequent fiscal years.

**Effect:** Use of the capital budget for programs that fund the ongoing neighborhood projects and special events inappropriately shifts these costs out of the operating budget. This artificially reduces the ongoing cost of service delivery for the CNR Department and allows these ongoing expenditures to escape established requirements for zero-based budgeting.

In addition, authorizing operating expenditures in the capital budget obscures the fact that these expenditures should be subject to state mandated limits. These limits do not necessarily apply to items in the capital budget. State law exempts amounts accumulated for the purchase of land, buildings, or improvements if voter approved (i.e., a capital projects accumulation fund) but does not exempt activities such as those charged against NEP. Combining non-qualifying expenditures within a fund used to track qualifying expenditures requires an accounting adjustment when the Annual Expenditure Limitation Report (required by law to be filed with the Auditor General) is prepared. The expenditures charged against NEP have not been added to the amount presented as the citywide expenditure when past reports have been prepared.

Authorizing NEP expenditures under the capital budget also results in excluding them from what is reported as the cost of CNR activities. Financial reporting is designed to provide users with accurate information on the cost of

City activities. However, as currently authorized, the NEP expenditures, which are operational in nature, are not reported as such and effectively reduces the cost of CNR activities for anyone reviewing City financial reports.

**Recommendation:** The Financial Services General Manager should take steps to ensure that NEP expenditures are authorized out of, and reflected in, the appropriate departmental operating budget.

**OBJECTIVE 5: DETERMINE IF THERE ARE ANY OTHER ISSUES THAT NEED TO BE ADDRESSED.**

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| Finding: NEP program documents need to be addressed on a CNR records retention schedule. |
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**Criteria:** The City's Administrative Regulation 295 requires all officials, employees, and representatives of the City of Scottsdale to adhere to the records management policies and procedures set forth in the Records Management Manual issued by the City Clerk's Office and approved by the City Manager. The Records Management Manual indicates the following:

*Every department is required to have a current, State-approved Records Retention and Disposition Schedule (also referred to as Retention Schedule or schedule) on file with the City Clerk's Office.*

This manual further indicates that the Records Retention and Disposition Schedule "is a document that lists the types of records (record series) maintained by each department, specifies the period of time a record is retained, and authorizes the destruction of non-permanent records." According to the manual, every City department is legally required to comply with its respective Retention Schedule; therefore, schedules must be followed carefully, consistently, and in a timely manner. A retention schedule that has been customized to accurately reflect the types of files that are maintained by the department is preferred over a model or generic schedule.

**Condition:** A variety of documents are collected from individuals and organizations applying for NEP funds. These documents include, but are not limited to, completed applications, project plans and photographs, personal income tax returns, social security statements, bank and investment statements, letters, and e-mails. We noted that these records are generally kept within the CNR office area and are assembled by project. However, the NEP Administrator indicated that there is no retention schedule that addresses how long these documents will be retained or what will happen to them in the future.

**Cause:** Ineffective controls to help ensure compliance with records management requirements.

**Effect:** Non-compliance with the requirements set out in the City's Records Management Manual.

**Recommendation:** Designate the personnel that will be responsible for ensuring CNR compliance with the Records Management Manual and establish a timeframe by which compliance will be achieved.

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| <p><b>Finding:</b> Confidential information obtained from citizens applying for participation in the Rock the House program is not adequately safeguarded.</p> |
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**Criteria:** Steps should be taken to safeguard confidential citizen information obtained by the City.

**Condition:** Income verification is part of the NEP Administrator's process of determining whether an applicant qualifies for the Rock the House program. As part of this process, the applicant may provide copies of their income tax returns, W-2s, Social Security statements, check stubs, bank statements, investment reports, or other documents that detail confidential financial information. We observed that these are retained in CNR within the applicant's file within the NEP Administrator's office. The files were maintained on top of a desk with some being inside unlocked desk drawers. We noted that nothing was being done to specifically safeguard the documents. Moreover, we found no guidance such as an Administrative Regulation that outlines the steps that should be taken to properly safeguard and avoid disclosure of confidential citizen documents in City possession.

**Cause:** The lack of formalized citywide guidance on requirements for safeguarding confidential citizen information.

**Effect:** Citizen confidential documents in City possession are not adequately safeguarded to help ensure that access to the information is limited to those that need to work with it.

**Recommendation:** The City Manager should ensure that steps are taken to develop citywide guidance on the requirements for safeguarding confidential citizen information.

## APPENDIX A – MANAGEMENT RESPONSE

### Memorandum

TO: Cheryl Barcala, City Auditor

FROM: Judy Register, General Manager, Citizen and Neighborhood Resources  
Craig Clifford, General Manager, Financial Services

DATE: November 30, 2005

RE: Neighborhood Enhancement Partnership Audit No. 0516

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Thank you for your review of the Neighborhood Enhancement Partnership program and for the feedback that you have provided regarding this program. We concur with your recommendations as reflected in our management response and action plan.

We will also initiate ordinance amendments to formally authorize the Citizen and Neighborhood Resources department and update the role and responsibilities of the Neighborhood Enhancement Commission. The department's goal has been and continues to be the improvement of service delivery to Scottsdale neighborhoods; especially those in the mature areas of the community. We also recognize the importance of improving management and program controls to ensure the prudent utilization of city resources as we address the evolving needs of Scottsdale neighborhoods.

CC: Jan Dolan, City Manager  
Ed Gawf, Assistant City Manager  
Neal Shearer, Assistant City Manager